

DAVID KRUTCHIK, INC.

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ADVERTISING

MEMO

TO Joe Horres

RE Alternative Format, Store Employee
Motivation Program:
FREE INCENTIVE AWARDS

Here's a neat alternative to the merchandise catalog format.

Stores are assigned an overall quota of 3-FOR transactions to be met by the conclusion of the program -- by the end of, say, 7 weeks.

Each week, each store receives a computer print-out showing the number of 3-FOR transactions the store made that week and where the store stands vs. the quota to be made overall.

Employees of a store earn credit toward free incentive awards as a team. As the store's performance goes, so go the fortunes of the store's employees.

(Note: Employees on a "swing shift" roster are designated "special teams". Credit toward incentive awards is based on performance of the store group administered by their Sales Manager.)

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3 WAYS EMPLOYEES CAN QUALIFY FOR AWARDS

1. At the conclusion of the program period, all employees of all stores meeting their overall quota receive an award that can be valued and appreciated by everyone. We recommend either a DIGITAL WATCH or AM/FM PORTABLE RADIO.
2. Top 30 Club. The 30 stores in the Division turning in the best performance vs. quota are designated members of the Top 30 Club. As an extra incentive, in addition to the recognition, we recommend awarding to all employees of all Top 30 Club stores ANY 3 RECORD ALBUMS or TAPES they choose from among 200 titles recorded by the biggest stars of Rock & Roll, Country, Classical, Jazz, etc.
3. Lucky 7 Game. Each week for 7 weeks, a drawing is held to select, from among the stores in the Division, 7 winning stores. To all employees of all winning stores, we recommend awarding the RECORD ALBUM or TAPE they choose from among the 200 best-selling titles.

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SALES MANAGER AWARDS

Sales Managers can play a crucial role. We recommend an automatic award to all Sales Managers -- give every one of them the DIGITAL WATCH or AM/FM PORTABLE RADIO incentive. They're all winners, right from the start.

Sales Managers' Top 30 Club. For each Top 30 store in his group, we recommend an award to the Sales Manager of \$30 CASH. Thus, the more productive his stores are, the more CASH the Sales Manager earns.

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BUDGETING

The budget for the above format is designed to be the same as the budget for creating and producing, for a Capitol Division test, the merchandise catalog: \$14,500. The budget for Logistics Central and for David Krutchik, Inc. are also unchanged, leaving the cost per store/week at \$11.30.

Particulars

We estimate 60% of the 500 stores in the Division will wind up meeting quota. Our model is the classic bell curve: of the remaining stores, half will exceed quota by approximately the same amount as the other half will fall short of it. Thus:

300 of the 500 stores -- 2,100 of the 3,500 employees -- will meet quota and earn the DIGITAL WATCH or AM/FM PORTABLE RADIO.

Cost . . . \$7,500.

Top 30 Club. 30 stores X 7 employees = 210 awards: choice of 3 best-selling RECORD ALBUMS or TAPES.

Cost . . . \$4,000.

Lucky 7 Game. 7 stores X 7 employees X 7 weeks = 343 awards: choose any 1 RECORD ALBUM or TAPE.

Cost . . . \$ 1,900.

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Automatic award of DIGITAL WATCH or AM/FM PORTABLE
RADIO to all 50 Sales Managers.

Cost . . . \$200.

Sales Managers' Top 30 Club. Sales Manager earns
\$30 for each of the Top 30 stores that's in his group.

Cost . . . \$900.

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THE BUDGET PER STORE/WEEK is, under this plan, the same as that for the merchandise catalog plan in test: 11.30 per store/week. As the program rolls out, the cost per store/week declines, and net profit increases, at a pretty dramatic rate. In other words, this program format not only pays out but, even through the 7 week spending period, produces considerable incremental profit.

30,000 quota awards (60% of 50,000 empl.)	\$110,000
Top 30 Club.	
30 stores X 7 employees X 14 Divisions = 3,000 awards	50,000
Lucky 7 Game.	
7 stores X 7 employees X 7 weeks X 14 Divisions = 4802 awards	25,000
Sales Manager Automatic Award.	
700 Sales Managers	2,500
Sales Managers' Top 30 Club.	
30 stores X 14 Divisions = 420 awards	12,600
Logistics: Tallying awards, admin. of weekly game, verifying and forwarding orders, acc't keeping	
	111,000
David Krutchik, Inc.	
Program origination, management	35,000
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TOTAL	\$346,100
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Budget per store/week	\$7.06

NOTE: Since the overall program objective is to establish 3-FOR as a long term pricing policy, it is worth considering what might be gained if we trade a portion of the short term windfall profit, earned during the 7 week spending period, for even sweeter employee incentives.

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